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DEPARTMENT OF THE TREASURY

ANNUAL TRADE PROJECTION REPORT TO CONGRESS

AUGUST 1996

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Prepared Jointly by the Department of the Treasury
and the Office of the United States Trade Representative

August 1996

ANNUAL TRADE PROJECTION REPORT - 1996

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I. Introduction

The U.S. current account deficit was $148 billion in 1995, about the same as in 1994 but smaller as a share of GDP. A structural improvement in our external position became apparent over the course of the year, offsetting transitory external factors that served to weaken the trade and current account. A delayed recovery in Japan and slow growth in the second half of the year in Europe held back exports, while adjustment in Mexico also delayed a turnaround in the current account deficit in 1995. Notwithstanding these factors, the trade deficit peaked in the second quarter of the year and has since begun to decline.

There are number of reasons for optimism that our underlying external position has improved.

- ***Deficit reduction improves our external prospects by raising national savings.*** The substantial deficit reduction that the Administration has achieved has boosted public sector savings, contributing to higher national savings. Over the next few years, budget deficit reduction should continue to improve the national savings rate.

- ***U.S. firms are competing successfully in global markets.*** Strong U.S. price and cost competitiveness should support robust export growth. U.S. exports continue to be one of the fastest growing components of U.S. GDP, rising more than 14 percent in 1995.

- ***Our efforts to open markets are paying off.*** Our trade agreements have created jobs and reduced barriers abroad. For example, our Framework Agreement with Japan has increased access of American firms to key markets. Exports to Japan in sectors covered by the Agreement have grown over 80 percent since the agreements were signed, more than twice as fast as other exports to Japan.

- ***Sustained growth abroad over the course of 1996 will expand our export markets.*** Recovery in Japan, Canada and Mexico, and continued strong growth in emerging markets should also contribute to a reduction in our current account deficit. The consensus forecast of private economists[1] is for the current account deficit to fall during 1996-97. Longer range forecasts see the current account deficit continuing to decline gradually as a share of GDP through the end of the decade.

The Administration is committed to policies aimed at raising national savings and productivity, encouraging strong growth abroad, and expanding trade through reducing trade barriers and opening markets. These policies will help reduce U.S. trade and current account deficits. In this regard, further progress in reducing the budget deficit, building on the significant achievements of the first years of the Administration, will contribute to improved exchange rate fundamentals.

Readers are, in addition, referred to the Treasury Department's December 1995 Report to The Congress on International Economic and Exchange Rate Policy, which discusses several related issues, including exchange rate developments, in more depth.

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[1] Consensus Economics, June 1996 and February 1996

II. Review of Developments in 1995

Trade and current accounts

There was a significant shift towards a more favorable pattern of external balances during the course of 1995.

The U.S. current account deficit peaked in the second quarter and then began to decline. For 1995 as a whole, the deficit totaled $148.2 billion (2.0 percent of GDP), compared with $148.2 billion (2.1 percent) in 1994 (Chart 1 and Table 1). There are a number of positive elements suggesting a solid improvement in the underlying current account deficit.

- The U.S. trade deficit peaked in the second quarter of 1995 and subsequently declined. The November and December goods and services deficits were $6.7 billion and $6.8 billion, respectively, the first monthly deficits below $7 billion since March of 1994. The deficit rebounded a bit in early 1996 but remains well below 1994 and first half 1995 levels.

- A delayed recovery in Japan and slow growth in the second half of the year in Europe held back exports, while adjustment in Mexico also delayed a turnaround in the current account deficit in 1995. These factors should weigh less heavily on our external position this year, allowing a strengthening underlying trend to emerge.

- On the other hand, a delay in disbursements on some international grants that usually are paid out at the start of the fiscal year reduced the fourth-quarter and full-year current account deficits but affected payments in 1996.

U.S. exports continued to grow strongly in 1995, while import growth moderated.

- Despite transitory negative factors, buoyed by continued strong U.S. price and cost competitiveness, export growth exceeded 14 percent in 1995 (Chart 2).

- Imports rose 12 percent, but peaked in the second quarter.

- The surplus on services continued to rise, reaching $63 billion.

Among our major industrial country trading partners, the general trend was toward more sustainable external positions.

- The Japanese current account surplus actually declined in 1995, both in dollar terms and as a share of GDP. From an average of about $130 billion (roughly 3 percent of GDP) during 1993-4, the Japanese surplus fell to $110 billion (2.2 percent of GDP) in 1995.

- The European G-7 members (Germany, France, UK and Italy) collectively moved from rough balance in their current account to a small surplus in 1995, primarily reflecting the slowdown in growth in the second half of the year relative to their major trading partners.

- Canada experienced a modest decline in its current account deficit in 1995.

Among emerging market economies, sustained strong growth in East Asia and increased interest in investment from abroad led to a swing in their collective current account from surplus to small deficit, and widening capital account surpluses in a number of countries.

- Within the NIEs, strong growth during 1995 in Malaysia and Thailand spurred import demand, leading to a widening of their already significant current account deficits by 1 ½ to 2 ½ percent of GDP. Indonesia and Korea also saw external deficits widen. Hong Kong, Taiwan and Singapore -- along with China -- remained in surplus.

  - China's overall current account surplus was estimated at about 2.3 percent of GDP, up from 1.5 percent of GDP in 1994. Taiwan's current account surplus dropped from 2.3 percent of GDP in 1994 to 1.6 percent in 1995.

- Reflecting a sharp decline in GDP, there was a sharp swing in the Mexican current account, from a deficit of $29 billion in 1994 to near balance in 1995. Brazil swung sharply into current account deficit in 1995, while Argentina (partly reflecting very weak GDP growth) sharply reduced its external deficit.

Of those countries with global external surpluses, only China and Taiwan had substantial bilateral trade surpluses with the United States.

- In the case of Taiwan, we have seen downward adjustment in the bilateral trade surpluses associated with real appreciation of the NT dollar between 1987 and 1990. The U.S. bilateral trade deficit with Taiwan remained unchanged in 1995, at slightly below $10 billion.

- In China's case, a number of factors appear to be at work: domestic conditions have dampened import demand, recent export-oriented foreign direct investment and tight domestic credit have spurred production in foreign exchange producing sectors, an anticipated reduction in VAT rebates for exports spurred exports, and multiple overlapping trade barriers -- high tariffs, in combination with restrictions on trading rights, discriminatory technical standards, quantitative import barriers, industrial policies and subsidies -- continue to limit foreign access to markets. Through bilateral and multilateral channels, the Administration is pressing China to provide meaningful market access for goods and services. Steps taken in this regard include the 1992 U.S.-China Memorandum of Understanding on Market Access, implementation of two agreements on intellectual

property rights, and continuing negotiations regarding China's accession to the WTO. In 1995, U.S. export growth to China surged at 27 percent, substantially higher than the 18 percent growth in U.S. imports from China.

This pattern of bilateral and multilateral balances with Asia represents a sharp contrast from the situation in the mid-to-late 1980s.

- At the peak of the U.S. current account deficit in 1987, much of the deficit was reflected in large bilateral deficits with key East Asian emerging economies. These economies were also running significant global current account surpluses that raised concerns in the United States and elsewhere about the appropriateness of their exchange rate policies.

- Since that time, these and other emerging economies in Asia have continued to grow rapidly, have made progress in opening their markets, have experienced significant appreciation of their currencies, and are receiving substantial capital inflows. Consequently, their current accounts are now generally in deficit and their bilateral surpluses with the United States have been reduced or turned to deficits. The most important exception is China, which retains major barriers to trade and which has seen the emergence of overall surpluses, and large bilateral surpluses against the United States, in recent years.

U.S. trade is broadly based, with an important share held by the emerging markets.

- U.S. exports and imports to Western Europe are about 20 percent of total exports and imports (Table 2). Trade with Japan is 11 percent of total exports and 17 percent of total imports. About 30 percent of our trade is with Mexico and Canada. Emerging markets in Latin America and Asia are an important source of trade, accounting for over 20 percent of both exports and imports.

External debt

Developments in the net external position of our major trading partners mirrored movements in their current account.

- The estimated net debtor position of the United States in 1994 was about 10 percent of GDP. It rose modestly further in 1995, reflecting the continued current account deficit (Table 3).

- Japan's net creditor position, approaching 20% of GDP, continues to widen -- though at a slower pace, while Germany's (at about 10 percent of GDP) has been falling about $20 billion per year due to the current account deficits that emerged following unification.

Exchange rates

The dollar strengthened after April 1995, reversing its decline of earlier in the year.

- The dollar declined sharply against other major currencies from the end of 1994 through April, in what were at times volatile trading conditions. During these four months, the dollar declined by 15 percent against the yen and 11 percent against the mark. On a trade-weighted and inflation adjusted basis, the decline was a more moderate 6 percent (Chart 3). During this same period, the real-trade weighted yen rose 12 percent. The real trade-weighted mark rose 6 percent.

- The dollar stabilized at the end of April and the beginning of May, and began an orderly reversal of earlier movements in response to a series of policy actions in the major industrial countries, concerted exchange market intervention, and changing expectations of economic performance among the major countries. Between end-April and end-August, the dollar appreciated by 16 percent against the yen and 6 percent against the DM. On a trade weighted basis, the dollar rose 3 percent, the yen fell 11 percent, and the mark fell 3 percent.

- By the end of the year, the dollar on a broad trade-weighted basis had appreciated 5.7 percent from the lows of April 1995. Nevertheless, the dollar was still 5.8 percent below the level at the end of 1993.

In emerging markets in 1995, the effects of the Mexican financial crisis were the most notable developments.

- The Mexican peso fell sharply in December 1994 and early 1995 as concerns grew about Mexico's exchange rate policies and its large build-up of short-term external liabilities. Overall, the peso dropped by about 34 percent in real effective terms between December 1994 and March 1995, before recovering somewhat later in the year.

- Concerns in Mexico were initially reflected in premia in other emerging market currencies and financial markets. However, Mexico responded with rigorous adjustment policies and a continued move to greater economic openness, consistent with its NAFTA commitments. This, combined with the U.S.-led international assistance package, led to a rapid financial stabilization and hastened the economic recovery. Most other emerging markets recovered as it became clear that the Mexican crisis was under control.

- Elsewhere, movements in exchange rates of our major trading partners were generally modest and reflected country-specific factors. For a number of emerging markets, however, a common factor was the continuation of substantial capital inflows, which put upward pressure on exchange rates.

Growth and inflation

The global expansion continued in 1995, but most industrial country trading partners saw slowdowns at some point during the year. Inflation continues to be muted in most countries.

Among industrial countries, aggregate real GDP growth in 1995 moderated. The slowdown was most pronounced in Continental Europe, while the Japanese economy began to show signs of recovery late in the year (Table 4).

- For the G-7 (Summit) countries as a whole, real GDP growth was 1.9 percent in 1995, after reaching 2.9 percent in 1994. The weighted average growth of the 25 OECD member countries was 2.0 percent in 1995, versus 2.7 percent in 1994 but only 0.9 percent for 1993.

- Real growth slowed in most of the G-7 countries in 1995. In Japan there were some encouraging signs of a modest revival of growth in late 1995, which is expected to be sustained in 1996-97. (The industrial country outlook is discussed in Part III below.)

Outside the industrial countries, growth in the emerging markets has averaged several percentage points higher than that in the industrial countries in recent years. This continued in 1995, despite negative growth in Mexico and a related slowdown elsewhere in Latin America.

- Growth in the rapidly-expanding economies of East Asia averaged 8-9 percent in 1995, little changed from the very strong showing for 1994. China grew over 10 percent, while the DAEs mostly were in the 7-8 percent range.

- Growth in Latin America ex Mexico fell sharply from 6 percent in 1994, but still remained well above 3 percent. However, this aggregate concealed a wide range of outcomes, with little or no growth in Venezuela and Argentina (the latter in part due to spill-over effects from the Mexican situation) but solid growth in Brazil and Chile.

- Mexico suffered a sharp decline in real GDP in the first half of 1995 -- for the year as a whole the fall was nearly 7 percent. But a recovery began in the second half of the year and continued in the first quarter of 1996. The Mexican government has forecasted growth of 3% for 1996 as a whole.

Inflation continued to be subdued in the G-7 countries, averaging 2.3 percent (measured by CPIs) in 1995 after 2.2 percent for 1994 (Table 5). These inflation levels are the lowest since the mid-1960s, prior to the Vietnam War buildup.

- The low inflation rates were shared by most countries, with Italy again the exception at over 5 percent.

- By contrast, Japan actually recorded a slight <u>decline</u> in consumer prices.

- For the remainder of the OECD, a similar low rate of inflation was recorded, and with the notable exceptions of Turkey and Mexico inflation rates were comfortably in the single-digit range.

In developing countries, there often is a very close relationship between inflationary pressures and deterioration in external accounts, since these are alternative outlets for excess demand pressure. Indications of severe excess demand pressures were not widespread among these economies, but there were several large and notable exceptions -- China, Brazil, Russia. However, in the Chinese case, inflation was down significantly in 1995 and was combined with an external surplus; in Brazil and Russia, inflation -- while still very high -- also was down substantially from extremely high 1994 levels.

<u>Fiscal policy</u>

Fiscal consolidation programs are underway or planned in many countries (Table 6)

- The U.S. fiscal position improved in 1995, marking the third consecutive year in which the fiscal deficit has been reduced.

- European countries generally were reducing their deficits in 1995 in order to meet convergence criteria in the Maastricht treaty. But weak growth limited the reduction achieved.

- Japan was an exception, where supplemental spending packages were implemented that made fiscal policy expansionary.

In emerging markets, a major structural change in fiscal policy broadly defined involves privatizing large scale government enterprises -- sometimes involving whole sectors of the economy. Such programs reduce government spending for subsidies, bring in revenues and increase efficiency.

III. Projections for 1996 and 1997

Trade and current accounts

The U.S. external position should continue to show improvement, and external imbalances in key trading partners should continue to shrink.

- Over the next few years, with budget deficit reduction continuing to improve the U.S. national savings rate and the reasonable expectation that export markets should continue to be robust in light of our strong competitive position and sustained growth in important U.S. trading partners, the current account deficit should decline. The consensus of private economic forecasters has the deficit falling to from 2.1 percent of GDP in 1995-96 to 1.8 percent of GDP in 1997-98 and 1.7 percent in 1999.

- Japan's external surplus is expected to fall somewhat more sharply, to as low as 1.3 percent of GDP in 1997.

- The modest German deficit is expected to reach balance by 1999, while the U.K.'s small deficit is expected to continue.

- France's small surplus is likely to decline somewhat, while Italy's sizeable surplus should continue.

- The Canadian deficit is expected to narrow a bit further -- but remain in deficit -- during 1996-97, reflecting increased competitiveness associated with past declines in the Canadian dollar.

Growth and inflation

Growth is expected to pick up in foreign industrial countries after a weak first half in Europe, and remain strong in major emerging markets. Inflation remains under control in the industrial countries.

For the G-7 countries growth is expected to pick up in 1996-7, after a slowdown in 1995.

- U.S. growth is expected to remain at about last year's rate for 1996 and 1997. The Consensus projection (2.2 percent for 1996-97) is similar to the Administration's expectation of 2.2 percent and 2.3 percent respectively on a Q4/Q4 basis.

- Japan should see the biggest improvement this year, but only to about 2.5 percent growth after nearly four years without growth.

- Growth in Europe is expected to be quite weak even with some modest pick-up expected in the second half.

- This growth pattern suggests that Europe and Japan will close the gap between actual and potential output only very gradually, and substantial unemployment is likely to persist.

One factor in favor of a stronger rather than weaker growth outcome is that inflation remains well under control in virtually all the G-7 countries.

- Most forecasters believe that inflation rates will remain subdued during 1996-7 -- at the lowest levels for 30 years for most G-7 countries (2- 2 1/2 percent).

Related to the need to sustain growth is a general concern to reduce public sector deficits, which have been large and persistent in most of the industrial countries.

- Where growth prospects are relatively weak, the process of fiscal consolidation will be more difficult, though political will remains strong to make progress over time. In Europe, the political stakes are particularly high in light of the emphasis placed on fiscal consolidation in the Maastricht Treaty.

- For Japan, it is appropriate for the emphasis to remain on strengthening and sustaining the expansion, which will help set the stage for a gradual return to fiscal consolidation over the medium term.

Prospects are for growth in the non-industrial countries to exceed growth in the industrial countries by a comfortable margin.

- Some moderation may occur in the Asian region, but from an extremely high base; East Asian growth in 1996-7 is expected to exceed 7-1/2 percent, roughly three times that of the G-7 countries.

- Latin America collectively should continue to show solid growth in the 3 percent range, if only because Mexico shows signs of a return to positive growth after the substantial 1995 decline. Despite this recovery, Mexico is expected to remain near balance in the current account. Argentina also should return to positive growth in 1996.

- For the three broad groupings shown in table 4, the combined inflation/current account criterion suggests little cause for concern that developments in these areas would seriously damage growth prospects. Collective current account deficits, though growing, remain small for the Asian region, while inflation is expected to fall. For Latin America, aggregate inflation is projected to recede again, while current account deficits are expected to decline. Both trends are down for the "other" grouping, though inflation remains very high.

IV: Conclusions

The U.S. current account deficit peaked in early 1995 and appears to have begun to move on a downward path. Transitory external factors that weakened the current account in 1995 masked underlying improvement in our external position. Those transitory factors have now largely run their course. There are a number of reasons for optimism that our underlying external position has improved significantly. Over the next few years, budget deficit reduction should continue to improve the national savings rate. Continued strong U.S. price and cost competitiveness should support robust export growth. And, a return to stronger growth in key countries abroad during 1996 will expand our export markets.

V. Impact of Trade Barriers

The Congress requires the reporting of foreign barriers to U.S. trade in the annual National Trade Estimate Report on Foreign Trade Barriers (NTE), as revised by Section 1304 of the Omnibus Trade and Competitiveness Act of 1988. The law also requires quantification, where feasible, of the estimated effects of individual barriers to U.S. exports of goods and services and on U.S. foreign direct investment. For a listing of foreign barriers and their impact on U.S. trade and investment, the Congress is referred to the NTE.

The eleventh annual and most recent NTE was sent to the Congress on March 31, 1996. It lists a wide range of foreign barriers that restrict U.S. exports as well as those of other nations. Barriers are listed whether or not they are consistent with current international trading rules. Many such barriers are, in fact, inconsistent with the trade agreement obligations of U.S. trade partners, including such obligations under the World Trade Organization (WTO). Since the establishment of the WTO in 1995, the United States has used WTO dispute settlement procedures to address foreign trade barriers eleven times -- more than any other WTO member. In January 1996, the Office of the U.S. Trade Representative (USTR) established a permanent unit at USTR devoted exclusively to monitoring trade agreements and pursuing actions necessary to enforce U.S. rights under those agreements and under U.S. trade laws.

Despite the continued existence of barriers as documented in the NTE, significant progress has been made. In three years, the Administration has negotiated nearly 200 agreements to open foreign markets, helping to fuel record export growth and to expand export-supported jobs by over one million. The NTE serves as a significant tool for the identification and elimination of foreign trade barriers, as for the expansion of U.S. trade.

Trade barriers can and do have a substantial impact on U.S. exports, imports, production and the trade balance for specific products and, to some extent, for specific bilateral trade relations. They have particular economic importance because they limit the production potential of the country's most efficient industries and restrict a source of growth for higher paying U.S. jobs. Barrier elimination removes such microeconomic distortions (resource misallocations) in U.S. production and the real costs these distortions impose on the nation. The expansion of U.S. trade through

the elimination of barriers results in the strengthening of U.S. average labor productivity, the expansion of higher wage jobs and the increase the U.S. domestic living standards.

Trade barriers may also have some impact on the U.S. overall trade imbalance with the world, through the economic benefits of trade expansion through barrier elimination, as described above, do not depend on any particular shift in our overall trade imbalance. As discussed in earlier sections of this report, macroeconomic factors such as the levels of overall savings and investment, and relative national growth rates are considered to have the largest impact in the determination of any nation's global trade and current account balances.

STATISTICAL APPENDIX TO
ANNUAL TRADE PROJECTION REPORT - 1996

Economic Performance of Industrial Countries and Country Groups

Table 1

Current Account Balances
($ billions)

	1994	1995	1996F	1997F
United States	-148	-148	-144	-136
Japan	131	110	69	54
Germany	-21	-17	-13	-11
France	8	17	15	14
U.K.	-3	-11	-11	-13
Italy	16	27	31	32
Canada	-16	-8	-4	-3
Summit 7	-37	-30	-57	-63
Summit 7 less U.S.	114	118	87	73
East Asia	5	-4	-11	-17
Latin America	-47	-28	-25	na.
Other Countries	-13.6	-21	-20	-22

Source for 1996-97 forecasts: Consensus Forecasts, April/June 1996.

F = Forecast

East Asia: China, Hong Kong, South Korea, Taiwan, Indonesia, Malaysia, Singapore, Thailand and the Philippines

Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela

Other Countries: Eastern Europe, Egypt, Israel, Saudi Arabia, South Africa and Turkey

* Note: Estimates for Latin America, from the December 1995 Consensus Forecasts, cover the years 1994-96 only.

U.S. Export and Import Shares by Area, 1995

Table 2

Area	Exports (% of total; 3/4 at annual rate)	Imports (% of total; 3/4 at annual rate)	Memo Item: Bilateral Trade Balance ($billion)
W. Europe	**23.0**	**19.7**	**-15.6**
(U.K.)	(4.9)	(3.6)	(1.3)
(Germany)	(3.8)	(4.9)	(-14.9)
(France)	(2.5)	(2.3)	(-3.0)
N. America	**30.2**	**28.1**	**-36.4**
(Canada)	(22.2)	(19.7)	(-20.3)
(Mexico)	(8.0)	(8.3)	(-16.2)
Japan	**10.9**	**16.5**	**-60.6**
Selected Emerging E. Asia*	**14.5**	**17.0**	**-44.0**
(NICs)	(12.5)	(10.9)	(-10.2)
(China)	(2.0)	(6.1)	(-33.9)
Latin America	**8.6**	**5.6**	**7.4**
Rest of World	**12.8**	**13.1**	**-25.3**

*Korea, Taiwan, Hong Kong, Singapore, China

G-7: Foreign Assets and Liabilities
($ billion, end of period)

Table 3

	1990		1994	
	Assets	**Liabilities**	**Assets**	**Liabilities**
United States	$1,964	$2,317	$2,378	$3,159
Japan	1,857	1,530	2,423	1,735
Germany	1,091	744	1,433	1,230
France	707	761	979	1,067
U.K.	1,747	1,763	2,191	2,168
Italy	343	465		
Canada	179	392	211	455

Source: OECD Economic Outlook, December 1995

Economic Performance of
Industrial Countries and Country Groups

Table 4

Real GDP Growth

	1994	1995	1996F	1997F
United States	3.5%	2.0%	2.2%	2.2%
Japan	0.5	0.8	2.5	2.2
Germany	2.9	1.9	0.9	2.2
France	2.9	2.2	1.4	2.5
U.K.	3.9	2.5	2.3	3.2
Italy	2.2	3.0	1.6	2.2
Canada	4.6	2.3	1.9	2.9
Summit 7	2.9	1.9	2.0	2.3
East Asia	8.9	8.6	7.7	7.7
Latin America	5.1	0.8	2.9	n.a.
Other Countries	-7.4	-1.8	3.4	4.6

Annual averages; source for 1996-97 forecasts: Consensus Forecasts, February/June 1996.

F = Forecast

East Asia: China, Hong Kong, South Korea, Taiwan, Indonesia, Malaysia, Singapore, Thailand and the Philippines

Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela

Other Countries: Eastern Europe, Egypt, Israel, Saudi Arabia, South Africa and Turkey

* Note: Estimates for Latin America, from the December 1995 Consensus Forecasts, cover the years 1994-96 only.

Economic Performance of
Industrial Countries and Country Groups

Table 5

Consumer Prices

	1994	1995	1996F	1997F
United States	2.6%	2.8%	2.9%	2.9%
Japan	0.7	-0.1	0.1	1.3
Germany	2.7	1.8	1.6W	1.9W
France	1.7	1.8	2.0	1.9
U.K.	2.5	3.4	2.4	3.1
Italy	3.9	5.4	4.1	3.6
Canada	0.2	2.2	1.6	1.8
Summit 7	2.2	2.3	2.2	2.4
East Asia	12.1	9.5	7.9	7.7
Latin America	430.0	31.0	22.0	n.a.
Other Countries	305.0	141.0	63.0	41.0

Annual averages; source for 1996-97 forecasts: Consensus Forecasts, February/June 1996.

F = Forecast

East Asia: China, Hong Kong, South Korea, Taiwan, Indonesia, Malaysia, Singapore, Thailand and the Philippines

Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela

Other Countries: Eastern Europe, Egypt, Israel, Saudi Arabia, South Africa and Turkey

* Note: Estimates for Latin America, from the December 1995 Consensus Forecasts, cover the years 1994-96 only. Inflation estimates for Latin America excluding Brazil for the three years would be 14.3% (1994), 31.0% (1995) and 22.1% (1996)

G-7 Fiscal Positions

Table 6

General Government Budget Balances*
(% of GDP)

	1994	1995	1996F	1997F
United States	-2.0	-1.6	-1.5	-1.5
Japan	-3.5	-3.9	-4.8	-4.1
Germany	-2.6	-3.1	-3.0	-2.3
France	-6.0	-5.0	-3.9	-3.0
U.K.	-6.9	-5.0	-3.8	-2.8
Italy	-9.0	-7.4	-6.0	-5.4
Canada	-5.3	-4.4	-3.1	2.0
Summit 7	-3.6	-3.3	-3.0	-2.6

Source: OECD Economic Outlook, December 1995

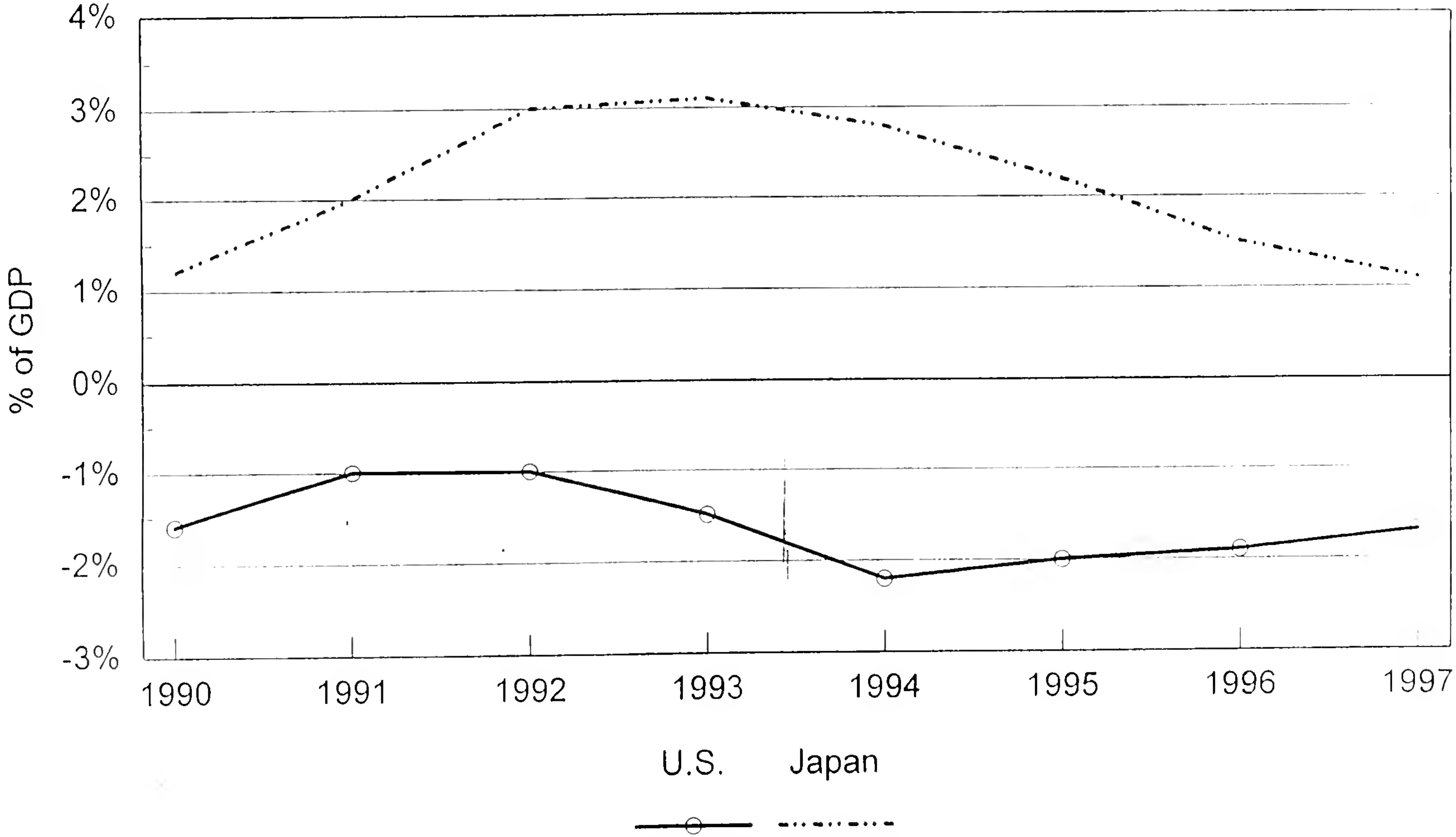
F = Forecast

* General government budget balance is the aggregate surplus or deficit of all levels of government -- federal, state and local. Estimates are on a calendar year, National Income and Product Accounts basis.

Chart 1

U.S. and Japanese Current Accounts

1990 through 1997

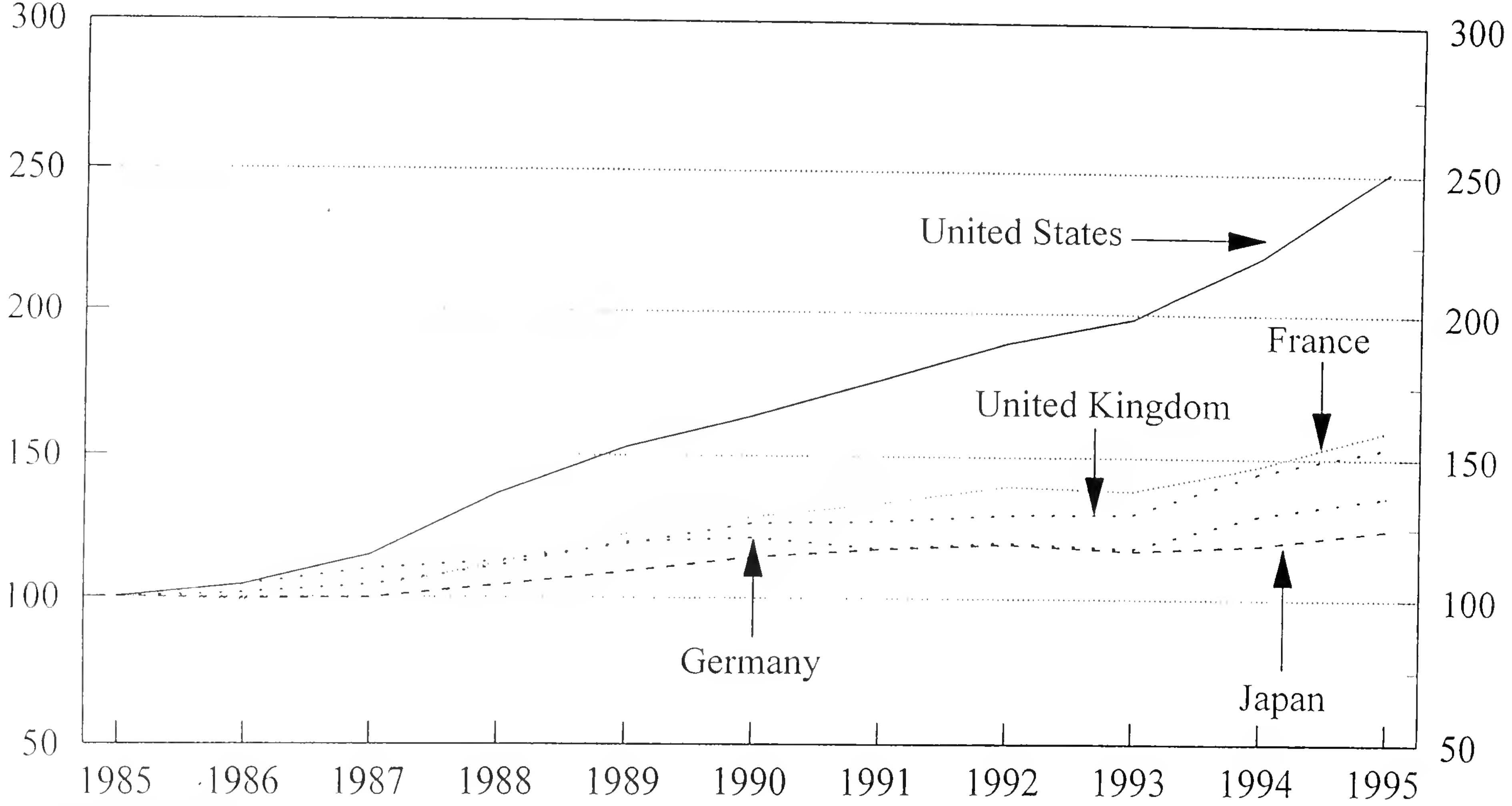


Source: IMF data, Consensus forecasts, Treasury estimates

Chart 2

G-7 Export Volumes

1985 = 100

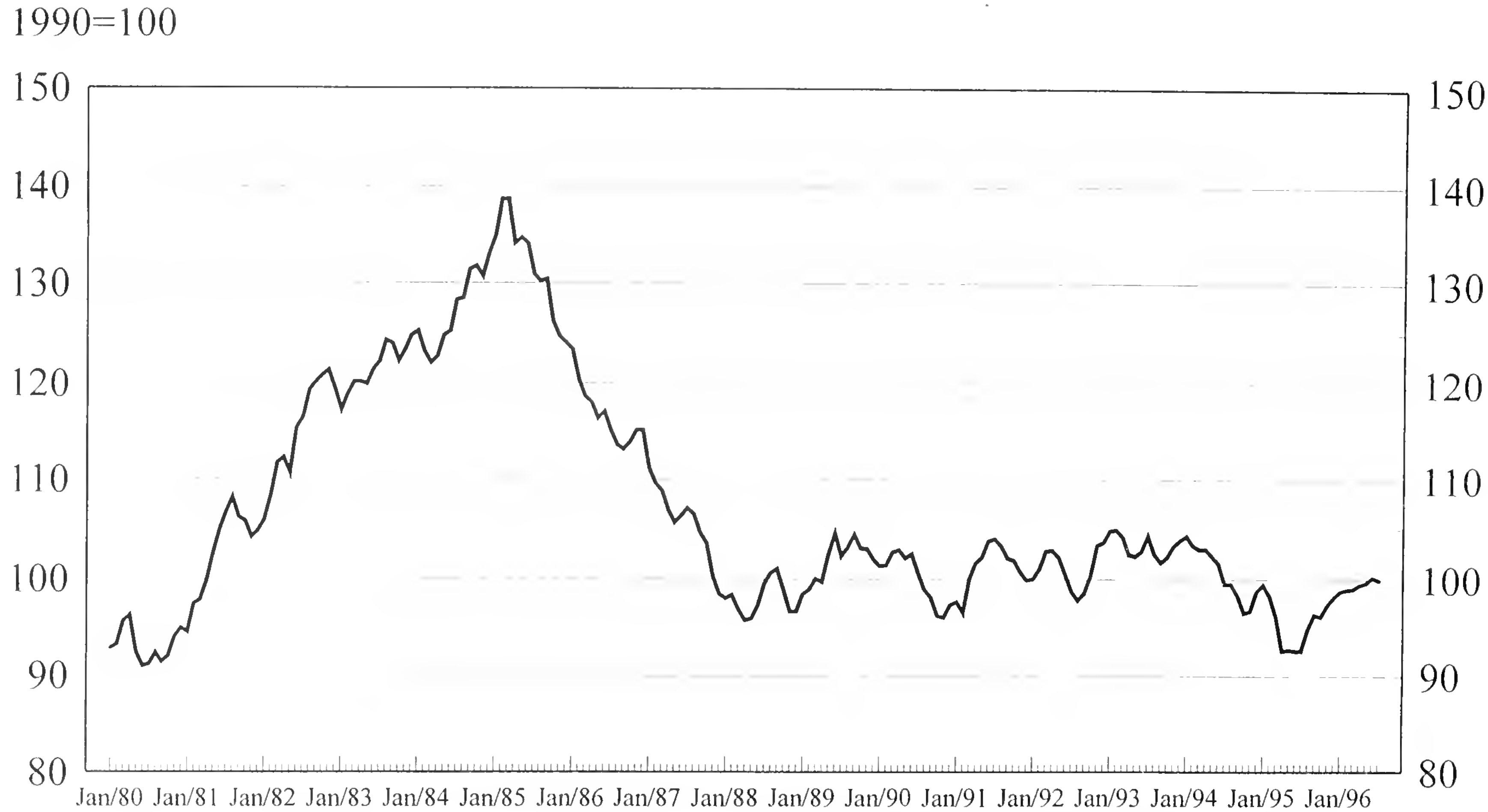


Source: OECD

Chart 3

United States: Real Trade-Weighted Exchange Rate

January 1980 - July 1996



Source:J.P. Morgan, 1990 trade weights (22 OECD and 23 developing countries; 1990avg.= 100.) Monthly averages.

A rise in the index = appreciation/decline in competitiveness;
A fall in the index = depreciation/increase in competitiveness.

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